

Town of St James
Internal Controls Policy and Procedures
(As adopted 2-3-2021)

Purpose and Description of Policy and Procedures Considerations

The purpose of this internal control policy is to document how the Management of the Town of St James has fulfilled its responsibility for implementing and maintaining a sound and comprehensive framework of internal control. Internal controls are vital for identifying and addressing major performance and management challenges and areas at the greatest risk of fraud, waste, abuse and mismanagement.

Internal control is a plan and process which is designed to provide reasonable, but not absolute, assurance that the Town can provide the following assurances:

1. The financial software and related compiled statements provide reliable and timely data,
2. The processes and procedures ensure safe care of Town assets,
3. The processes promote effective and efficient operations, and
4. The system, as designed, encourages adherence to prescribed managerial policies and compliance with all applicable laws and regulations.

Within the control environment, there are five (5) components of the process that must be considered when properly structuring, implementing, and maintaining a cost-effective internal control environment.

1. **The cultural atmosphere for human behavior with the environment.** The key factors that are expected of Management include the following:
 - a. Integrity and ethical values of Managers and Staff. Management plays a key role in providing standards of behavior, removing temptations for unethical behavior, and providing discipline when required.
 - b. Commitment to competence. All personnel should receive training, counseling, and performance evaluations required to perform their duties.
 - c. Management's philosophy and operating style. This will impact the amount of risk tolerated and what behavior is rewarded or disciplined.
 - d. Organizational Structure. This will impact how the internal control functions are communicated, respected and reported.
 - e. Assignment of authority and responsibilities for operations. Control functions should establish accountability for results.

- f. Human resource policies and practices. These impact the environment by establishing proper hiring, orienting, training, evaluating, counseling, promoting, compensating and disciplinary guidelines.
2. Using Management's objectives, **complete a risk assessment** to anticipate and compensate for factors that will prohibit Management from completing those objectives.
3. Create Procedures and policies that will become the **control activities** necessary to compensate for any risks identified in the risk assessment.
4. Given the current technology and software systems maintained by the Town, ensure that the **correct information is presented to the right individuals at the right time and in the right format.**
5. **Monitor** internal controls on an ongoing basis. This is essential to make sure the controls are functioning as intended, and if not, that corrective action can be taken immediately.

Understanding Limitations of Internal Controls:

In this imperfect world, there are several factors which can reduce the effectiveness of any internal control policy or procedure, and it is important to understand that even the best internal control policy can be deemed ineffective. In small units of government, the most notable is the cost effectiveness of implementing strong internal controls. There are just not enough staff members for adequate checks and balances. Management can override or circumvent control procedures, whether for expediency or personal benefit. Unintended errors can take place, either due to mistakes in judgement, carelessness, or misunderstandings. And finally, collusion, if it exists, is hard to detect, and the difficulty increases with the authority level of the employee.

Internal Control Procedures – Currently in Place and Followed

Cultural Atmosphere – (1.)

The Hiring Process:

1. A thorough job description is created.
2. Vacant positions are advertised in the local newspaper, with the league of municipalities and a second job resource platform.

3. Background checks (employment, personal, educational certification and criminal) are used as part of the hiring process to ensure the integrity of the new hire. Credit checks are also requested for Management staff with check signing privileges.
4. Qualified applicants may be interviewed via telephone or online. However, a second on site interview must be scheduled prior to offering the position. In no event will an applicant be hired without an on-site visit.
5. All policies and procedures regarding related applicants that are found in the current employee handbook will be followed.

The Office Environment:

1. Management will ensure that core values of trust, honesty, and accountability are at the heart of all management decisions and personnel evaluations.
2. Continuing education in order to maintain appropriate certifications are required.
3. Responsible employee authorizations are required for all accounting transactions.

Risk Assessment and Compensating Factors (2. & 3.)

Cash:

Risks: (and associated control procedures in red)

- Employee could receive cash and fail to report the receipt.
 - Cash is not accepted for any Town service.
- Employee could pocket cash from the petty cash box.
 - The Town does not maintain a petty cash box.
- Criminals could try to steal cash by forging an ACH draft.
 - The bank has a positive pay feature, whereby the Finance Director must log into the website with a separate log in and user id to approve the payment.
- An employee could try to steal through use of an ACH draft or a counter check.
 - All ACH transactions are recorded as a check request/purchase order and are signed by the Town Manager. The bank has been given a directive to never allow for counter checks.
 - At the end of every month, a copy of the bank statement and supporting documents are scanned and emailed to a Council Member who has been designated to review.

- An employee could try to steal cash using a blank check.
 - All checks are locked in the fireproof cabinet. Beginning and ending check numbers are identified on the check register, which is reviewed and signed off on by whomever signs the checks. Two signatures are required on checks.
- Cash transactions could be recorded improperly.
 - Bank reconciliations are made monthly, a copy of which is included in the monthly financial package presented to Council, along with a detail list of all revenue and expense line items to date.

Investments:

Risks: (and associated control procedures in red)

- Investments and / or related income could be improperly recorded.
 - Financial statements are compared to the investment statements monthly and are provided to Council, Staff complies with GASB 40 guidance, investments are held with the NC Capital Management Fund, an authorized investment under NC law. If another investment platform is used, it must be approved by Council and updated in this policy.

Revenues:

Risks: (and associated control procedures in red)

- Revenues could be improperly recorded or not received in their entirety.
 - Revenues collected from the county and the state are received via automatic deposit. There is no risk of a check being lost or deposited in an unauthorized account. All receipts from the state and county are verified via the state and county online portals and reconciled against the actual receipt.
 - Revenues collected for zoning permits are received by check only. The Zoning Administrator who receives the check completes a receipt of payment, one copy is given to the finance office for deposit, the second copy is stapled on the zoning permit application. The Zoning Administrator compiles an excel list of all zoning permits issued. This list is reconciled to the amounts posted to the financial software on a quarterly basis. In addition, since the financial software does not have a receipts module, copies of each check with their receipt are made, and are attached to the month's bank statement.

- Revenues collected on behalf of the community center use the following procedures to segregate duties and assure proper reporting:
 - Room reservations are secured via a signed contract on the software platform referred to as Event Guru (EG) - which indicates the appropriate charges (even if zero for residents). The finance office has access to all information on the EG platform.
 - Credit card payments are made directly on the EG platform. They are processed and a daily batch of collections is sent directly to the Town's BB&T merchant account.
 - Daily or weekly reconciliations are made between the EG reporting for collections and the BB&T merchant account. The reconciliation frequency is dependent on the frequency of collections.
 - The Community Center does not collect cash payments.
 - Checks received for Community Center events are posted by the Community Center Manager to the EG software daily. Once posted, they are given to the finance office. The finance office makes a copy of the check for backup support and creates the deposit slip. Checks are again reconciled to the EG reports and are posted to the financial software after the bank deposit is complete.

Debt:

Risks: (and associated control procedures in red)

- Debt could be issued improperly.
 - All debt issued is authorized by the Town Council and under the auspices of the Local Government Commission (LGC).
- Debt payments could be under paid or inadvertently missed.
 - The annual schedule of debt service is filed with the LGC. The LGC notifies management if the filing is not made.

Expenditures:

Risks: (and associated control procedures in red)

- Unauthorized or unavailable funds could be expended.

- Blank checks are never signed in advance.
- Checks are never made payable to cash.
- A second signatory is required on all checks.
- Employee expense reports are properly completed and authorized prior to payment. Reports are signed by the employee, and supported by required documentation.
- A board approved budget is passed for each fiscal year.
- Complex passwords are used for all accounting software and related online portals (banks, etc.).
- The current financial system does not include a module for purchase orders, however a manual paper form for check requests / purchase orders is created and stamped prior to payment of any payable, including those paid via ACH. That form is initialed by the Finance Director, and the Town Manager prior to payment. Additionally, the check register of checks written and signed in each batch is initialed by the Finance Director, the Town Manager, and the 2nd check signatory (typically a Council Member).
- All contracts and agreements with a financial component are pre-audited by the Finance Officer.
- The Council receives monthly budget to actual expenditure reports and underlying line item details upon request.
- Payroll payments are made to persons not employed by the local government or the amounts paid/or deducted are incorrect.
 - New hire and termination forms are authorized by the Town Manager and are kept in the employee's permanent personnel file. Each employee should have a personnel file that includes the following at a minimum:
 - Hiring authorization
 - Salary history
 - Hours authorized to work
 - Federal and state withholding forms
 - Health and retirement deduction information
 - Authorization for all other payroll deductions.

Any changes in an employee's status should be supported by the appropriate documentation in the employees' personnel file.

- The Town of St James is too small to hide phantom employees.
- Timesheets for each employee are submitted timely on a bi-weekly basis for both exempt and non-exempt employees for review prior to payroll inputs.

- A third-party administrator (ADP) is used to process payroll, ensuring accurate and timely withholdings, submittal of fiduciary taxes and governmental payroll reporting requirements.
- An online portal is available for each employee to download individual pay stub transactions and final end of year wage statements.
- Periodic reconciliations / audits between pay details and the financial software are completed.
- The Town maintains a written personnel policy prohibiting employment practices that result in nepotism, conflicts of interest, or discrimination.

Purchasing:

Risks: (and associated control procedures in red)

- Possible violation of state procurement laws.
 - The Town maintains a robust purchasing policy which is updated every three years and incorporates legal mandates.
 - Staff is properly trained and attends continuing education seminars hosted by the NC School of Government, preferably on an annual basis.
 - Formal and informal bid procedures are followed as per statute and to assure that the Town is getting the best value for taxpayer dollars.

Town Assets:

Risks: (and associated control procedures in red)

- Fixed assets purchased could be incorrectly omitted from financial records and those fixed assets no longer in service could be inadvertently left on financial records.
 - Purchases in excess of \$5,000 are identified and scrutinized to determine whether the purchase needs to be capitalized. The advice of external auditors is requested when necessary.
 - A subledger of assets is to be maintained such that a comparison of the financial records and a physical inventory count can be made. Where historical records were not kept with detailed asset purchases, an attempt will be made to create such as list using a physical inventory count.
 - Newly purchased equipment will be tagged with a unique identifying number. The insurance company is contacted with the purchase information, and if the equipment is assigned directly to a

- staff member to use off premises, that staff member will be identified in the sub-ledger.
- Upon separation from employment, a review of all assigned equipment will be made. Prior to the final paycheck, all equipment will be returned and accounted for.
- Physical inventories are made every 3-4 years using existing staff. If time is of the essence and there are not available staffing resources, an external accounting firm may be brought in.
- Fixed assets or inventory could be removed from the premises and kept for personal use.
 - Portable assets are controlled via locked rooms, offices, or cabinets when the building is not in use. If the building is open to the public, portable assets not assigned for direct use are closeted and locked.
 - Upon separation from employment, a review of all assigned equipment will be made. Prior to the final paycheck, all equipment will be returned and accounted for.
 - Only Town employees, tenants, custodial maintenance, or Council members have access keys to the building. Security alarm access codes are never provided to any member of the public not listed above.
 - All sales of surplus property should be conducted in accordance with North Carolina G.S. 160A-266.

Presentation & Supervisory Review (4.)

The Finance Officer will prepare and distribute to Council, on a monthly basis, financial reports that represent a clear and honest picture of the monthly and year to date revenues and expenses, including reconciled cash balances.

North Carolina G.S.159-25(a)(1) charges the Finance Officer with keeping the books of the government “in accordance with generally accepted principles of governmental accounting and the rules and regulations of the Local Government commission. Statements on Auditing Standards (SAS) numbers 55,94 and 112 provide authoritative guidance for establishing and managing internal controls, and the NC Treasurer's Manual prescribes internal control functions, consistent herein with the Town of St James internal control policies.

An annual audit conducted by an external Certified Public Accountant is conducted – with findings presented to Council at an official meeting. It is the Council's preference that an RFP for a new audit firm be conducted every five (5) years to confirm that the Town is receiving fair value for the cost of an audit, and to assure that the most up to date consulting is provided.

Any employee who becomes aware of the misuse or potential misuse of Local Government assets shall immediately notify the Finance Officer/Director. If the Finance Officer/Director is involved in the misuse, or potential misuse, the employee shall immediately notify the Town Manager or Mayor. The Finance Officer/Director and or the Town Manager or Mayor, as appropriate, shall investigate and take appropriate action.

Monitoring Internal Controls (5.)

On a periodic basis, the Finance Director or designee will monitor the effectiveness of these internal controls and propose any modifications as indicated. Also, any malfunctioning of internal controls discovered by external auditors will be immediately investigated by the Finance Director and appropriate remedial action will be taken and documented.

Annual Policy Review

This policy shall be reviewed on an annual basis. The results of said review will be presented to Council prior to the annual retreat.